

## Information Item

### *Fiscal Policy and Analysis Committee*

#### Review of the Legislative Analyst's Recommendations on the Governor's 2001-2002 Budget

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This is the Postsecondary Education Commission's annual review of Legislative Analyst Elizabeth Hill's recommendations about the State of California budget proposed by Governor Gray Davis' for 2001-2002. Included is information from Ms. Hill on the Governor's Budget revenues and expenditure assumptions and on the State economy's health. The report then reviews the Analyst's recommendations on postsecondary, elementary, and secondary education.

The Legislative Analyst recommends many redirections and changes in the manner in which funds for education items are proposed in the Governor's 2001-02 State budget. Many of these recommendations are designed to provide recommendations with more discretion over funding community college districts and local K-12.

Among the Analyst's principal recommendations are:

- ♦ Steps that she feels would improve the effectiveness of current efforts of the California Community Colleges, the State University, and the University of California to help academically underprepared students succeed in college.
- ♦ The redirection of \$70.2 million in part-time faculty funding proposals to the community colleges "Partnership for Excellence" program.
- ♦ Moving nearly \$700 million from most of the Governor's targeted major program changes to K-12 into either block grants or into some more discretionary pots of funds to accomplish program goals.
- ♦ A warning that, given the current volatility of the energy situation and consumers' anxiety over their own wealth, State tax revenues could be insufficient to support the budgets planned expenditures.

*Presenter:* Kevin G. Woolfork.



# Review of the Legislative Analyst's Recommendations on the Governor's Proposed 2001-02 State Budget

**E**ACH FEBRUARY, the Office of the Legislative Analyst reviews the budget proposed in the prior month by the Governor. Like the Governor's Budget document, the Analyst's book is comprehensive and evaluates issues specific to individual government program categories (such as K-12 Education and Higher Education) as well as issues that cut across different program areas. The Analyst's recommendations are presented to the Joint Legislative Budget Committee and, during the coming months, will guide policy and funding discussions throughout the legislative hearings process on the Budget Bill.

The California Postsecondary Education Commission staff has reviewed Legislative Analyst Elizabeth Hill's recommendations concerning Governor Gray Davis' proposed 2001-02 State budget. The report presents information from the Analyst on the Governor's proposed budget's revenues and expenditures and on the State's economy. The report then reviews the Analyst's recommendations on postsecondary and elementary, and secondary education.

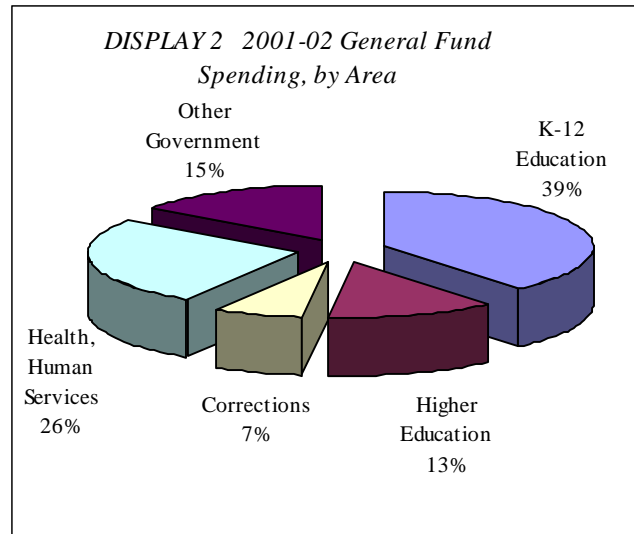
## Overall State spending

The Legislative Analyst summarizes the Governor's proposed 2001-02 State Budget as allocating approximately \$102 billion in State and selected bond funds. State General Fund spending in the budget is estimated to be \$83 billion, which is \$3 billion higher than in the current year. Display 1, taken from the Analyst's budget analysis, presents recent estimates of State General Fund revenues and expenditures for the past, current, and budget year.

<i>Display 1 Governor's Budget General Fund Condition, for Fiscal Years 1999-00 Through 2001-02 (Dollars in Millions)</i>				
	1999-00	2000-01	2001-02	
			Amount	%Change
Prior-year fund balance	\$3,930	\$9,367	\$6,557	--
Revenues and transfers	71,931	76,899	79,434	3.3%
Total resources available	\$75,861	\$86,266	\$85,991	
Expenditures	\$66,494	\$79,708	\$82,853	3.9%
Ending fund balance	\$9,367	\$6,557	\$3,139	
Encumbrances	\$701	\$701	\$701	
Set-aside for legal contingencies	--	7	500	
Reserve	\$8,666	\$5,849	\$1,937	

Source: Legislative Analyst's Office, Figure 1, page 4.

With regard to spending in various program areas, the Analyst notes that 52 percent of the total involves education, including about 39 percent for K-12 and 13 percent for higher education. Display 2 below shows the Governor's proposed allocation of General Funds by program area.



Source: 2001-02 Governor's Proposed State Budget.

#### **State revenues and the economy**

The Analyst's review of the Governor's Budget includes information on the state of the economy and on the level of revenues likely to be available to support proposed spending in the budget. While the Analyst forecasts slower economic activity over the next 10 to 12 months, she predicts a recovery and increasing State revenues in 2002. However, the Analyst cautions about the great challenges facing the State's budget and economy in the near future – including the ongoing energy situation – and cautions that a steeper slowdown than is projected might occur.

The Analyst notes that while the rest of the nation experienced a rather abrupt economic slowdown during the last half of the year 2000, California did not. In fact, the Analyst reports that 2000 was the strongest year yet of the State's seven-year economic recovery from the recession of the early 1990s. The economy faces much stiffer challenges in 2001, the Analyst reports, due to a significant slowdown in national spending on information and technology goods and services – of which California is a major producer. Further, the declines in the investment markets, the rising cost of living associated with the State's energy price spikes and spiraling cost of housing, and the general softening of consumer demand has combined to erode the wealth of the average household in the State.

The State's economy and the tax revenues have grown as household wealth has grown over the past eight years. This is because the majority of State revenue comes from Sales and Use taxes and Income taxes, which are dependent upon the economic vitality of households and State residents earning and spending money. The Analyst cautions, however, that should the energy crisis persist (with the transfer of wealth of an ad-

ditional \$15 billion or more to energy suppliers she calculates) California could enter a sudden and severe economic recession.

In summary, Ms. Hill forecasts that the economy for California and the nation will slow somewhat in 2001 and rebound in 2002. However, she predicates this forecast on the State and nation addressing the burgeoning energy situation soon so that it does not affect business and household economic activity.

**Governor's  
proposed funding  
for postsecondary  
education**

The Governor's proposed 2001-02 budget allocates more than \$28 billion in overall funding to California postsecondary education, including nearly \$15 billion in federal and non-State funds. As is summarized below in Display 3, this represents an increase over the 2000-01 Governor's Budget of \$1.4 billion (5.4%) in total funds.

The major funding changes systems proposed in the Governor's 2001-02 Budget for the public higher education are shown below in Display 4.

*DISPLAY 3 Postsecondary Education Budget Summary for 2000-01 and 2001-02, With One-Year Changes (Dollars in Millions)*

<u>Fund Source</u>	<u>2001-02 (bdgt.)</u>	<u>2000-01 (est.)</u>	<u>Dollar Change</u>	<u>Percent Change</u>
State General Fund	\$9,737.9	\$8,955.3	\$782.6	8.7%
Local Property tax revenue	1,846.6	1,709.4	137.2	8.0%
Student fee revenue	1,735.4	1,668.4	67.0	4.0%
Federal and other funds	14,789.5	14,348.5	441.0	3.1%
Total Funds	\$28,109.4	\$26,681.6	\$1,427.8	5.4%

General Fund amounts exclude capital outlay and payments on general obligation bonds.

Source: Legislative Analyst's Office.

*DISPLAY 4 Major Funding Changes Proposed in the Governor's 2001-02 for the Public Higher Education Systems*

<b>California Community Colleges</b>	<b>Requested:</b>	<b>\$3 billion</b>	
	<b>Increase:</b>	<b>\$225 million</b>	<b>(+8.2%)</b>
<i>Base Budget Increase:</i>		\$153.8 million	(3.9%)
<i>Enrollment Growth:</i>		\$106.8 million	(3%: 30,871 FTE students)
<i>Increase Part-Time Faculty Salaries:</i>		\$62 million	
<i>Financial Aid Outreach:</i>		\$11.4 million.	
<b>California State University</b>	<b>Requested:</b>	<b>\$2.7 billion</b>	
	<b>Increase:</b>	<b>\$216 million</b>	<b>(+8.8%)</b>
<i>Base Budget Increase:</i>		\$93.5 million*	(4%)
<i>Enrollment Growth:</i>		\$55.7 million	(3%: 8,760 FTE students)
<i>Fee Increase Buyout:</i>		\$16.6 million*	

\*for salary and other cost increases, and \$23.4 million (1 percent) for deferred maintenance, library acquisitions, and technology.

\*in lieu of 4.9% increase.

**Enhanced Summer Instruction:** \$12.4 million\*

\*for Fullerton, Long Beach, San Diego, and San Francisco campuses.

<b>University of California</b>	<b>Requested:</b>	<b>\$3.4 billion</b>	
	<b>Increase:</b>	<b>\$202 million</b>	<b>(+6.3%)</b>
<b>Base Budget Increase:</b>		\$119.7 million*	(4%)
		\$29.9 million**	(1%)

\*for salary and other cost increases.

\*\*for deferred maintenance, library acquisitions, and technology.

**Enrollment Growth:** \$52.2 million\* (3.3%)

\*5,700 full-time-equivalent (FTE) students.

**Fee Increase Buyout:** \$21.5 million\*

\*in lieu of 4.9% increase.

**Enhanced Summer Instruction:** \$20.7 million

\*for Berkeley, Los Angeles, and Santa Barbara campuses.

Source: Legislative Analyst's Office.

#### **Overall funding and policy issues for education**

The Legislative Analyst recommends that the Legislature delete \$800 million in proposed Proposition 98 spending for K-12 Education and the community colleges. The Analyst advocates that these funds instead be allocated to other purposes it deems more in keeping with stated Legislative priorities and to programs that provide local districts with greater flexibility. Most of these recommendations (\$692 million) are for items in the K-12 budget, which is discussed later in this report, with the balance affecting initiatives for the community colleges.

The Analyst also takes issue with the effectiveness of current efforts of the California Community Colleges, the State University, and the University of California to help academically underprepared students succeed in college. The Analyst makes several recommendations in this area. She asked that:

- ♦ All three public systems work with high schools to develop better methods to diagnose students' readiness for college-level work while the students are still in high school.
- ♦ The Legislature require the public systems to regularly assess and report on the effectiveness of pre-collegiate services provided to initially underprepared students.
- ♦ The Legislature require the public systems to assess and annually report on the reading, writing, and mathematics proficiency of all students – both freshmen and transfer students – entering their institutions.

The Analyst also recommends that the State fund pre-collegiate writing and mathematics courses in the State University, and University of Cali-

fornia at the same rate it funds credit courses at the community colleges. Currently these courses are funded at very different rates among the systems. The Analyst suggests that adoption of a single funding rate for pre-collegiate instruction would be more efficient for the State.

In the area of year-round instruction, the Legislative Analyst recommends that funding proposed to provide full State support for existing summer enrollment at the State University and University of California instead be redirected towards future enrollment growth that occurs in the summer. The 2001-02 budget requests \$12.4 million for CSU to support 3,138 FTE summer enrollment at the CSU campuses at Fullerton, Long Beach, San Diego, and San Francisco and \$20.7 million for University of California summer enrollment of 3,422 FTE at its Berkeley, Los Angeles, and Santa Barbara campuses. The Analyst argues that her proposal will provide the campuses with incentives for handling a greater proportion of their anticipated enrollment growth during the summer term.

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**Higher education  
system-specific  
issues**

In this section, Commission staff discusses selected recommendations by the Legislative Analyst for changes in the proposed 2001-02 budgets of the California Community Colleges, the California State University, the University of California, and the California Student Aid Commission.

*California Community Colleges*

- ◆ *Redirect \$70.2 million in part-time faculty funding proposals to the community colleges “Partnership for Excellence” program.*

The Governor’s 2001-02 budget contains three funding proposals, totaling more than \$70 million, related to part-time faculty compensation in the California Community Colleges:

1. \$62 million for community college districts to make part-time faculty salaries more comparable to that of full-time faculty who perform similar work.
2. \$7.2 million to expand the number of part-time office hours funded at a 1:1 state-to-local match.
3. An allocation of \$1 million to local districts for part-time faculty health insurance benefits.

The Analyst recommends that the funding for these augmentations be directed to the California Community Colleges’ “Partnership for Excellence” (PFE) program, which was initiated by then-Governor Pete Wilson in 1998. PFE, as codified by Senate Bill 1564 (Schiff, Chapter 330, Statutes of 1998), requires the community colleges to develop specific goals and outcomes measures to improve student success in the system in prescribed areas: student transfer and transfer preparedness, degrees and certificates, successful course completion, workforce development, and improvements in basic skills.

Regarding the budget's part-time faculty compensation equity proposals, the Legislative Analyst notes that the Legislature adopted PFE as a way to give districts more flexibility to meet State policy goals. Ms. Hill states that the targeting of funds for individual input purposes of these initiatives lessens local districts' financial latitude to decide how to best to allocate resources to meet performance goals. The proposed budget maintains the current-year funding base for PFE of \$300 million and the Analyst recommends that this item would be the most appropriate place to allocate the \$70 million in part-time faculty funding in order to best help districts meet both local needs and State policy goals

The Analyst states that neither a recent Postsecondary Education Commission study of this issue nor one completed last summer by the Bureau of State Audits evaluated how hiring and compensation of part-time faculty affect students' educational performance. Thus, she argues, improving funding in this area will not necessarily translate into better outcomes. The Analyst also notes that local districts can currently negotiate, in their collective bargaining roles, issues involving salaries, office hours, and health benefits with part-time faculty and can make improvements in these areas as they are bargained.

On a related subject, the Analyst recommends that the Legislature revisit the subject of the proper ratio of part-time faculty and full-time faculty in the community colleges. The California Community Colleges Board of Governors adopted a policy many years ago that this ratio between full- and part-time institutions should be 75/25. AB 1725 (Vasconcellos, AB Chapter 973, Statutes of 1988) expressed legislative intent to achieve the Board's policy goal that at least 75 percent of the hours of credit instruction in the community college system are taught by full-time instructors.

The Analyst notes that, not only is the system average of full-time faculty well below the 75 percent threshold, she finds no analytic or educational outcomes basis for this specific ratio. Consistent with her recommendations on the part-time faculty augmentations of providing local districts with more flexibility, the Analyst recommends that community college districts be allowed to determine their own ratios of part-time and full-time faculty as they make hires within their resources.

- ♦ *Redirect \$11 million provided to assist community college students to apply for Cal Grants into the "Partnership for Excellence" program.*

The Governor's budget provides \$11 million for local community districts to help eligible students apply for Cal Grant awards. The Chancellor's office would distribute \$2.7 million in amounts of \$25,000 each to all 108 colleges. The colleges would also receive a total of \$8.3 million, based on the number of federal Pell Grant recipients they have. The Analyst notes that community college campuses already provide financial aid counseling services to students and already process more than \$500 million financial aid from the federal government, the State, and campus-based assistance each year. She states that the community colleges have

presented no evidence that their current efforts require augmentation. The Analyst recommends shifting these funds to the Partnership for Excellence program to provide districts with flexibility to use these funds as they see fit, including for their financial aid efforts.

#### *The California State University*

- ♦ *Shift \$18.5 million in K-12 teacher technology training money from the California State University to the State Department of Education.*

The Governor's Budget requests an \$18.5 million augmentation for the State University to expand the "Education Technology Professional Development Program" (ETPDP). This increase would bring total funding for ETPDP to \$25 million, up from its current-year level of \$6.5 million. ETPDP established in 2000 by AB 2882 (Chapter 78, Statutes of 2000, Reyes). The program provides K-12 teachers with training on how to use technology more effectively within their classrooms. The Analyst recommends shifting this funding for education technology training the State Department of Education. Consistent with her recommendations elsewhere for local K-12 and community college districts, the Analyst states that districts should be given flexibility to choose the professional development providers that best meet their individual technology training needs.

- ♦ *Delete the \$10 million in ongoing funding the budget provided for high-cost academic programs at the California State University*

The budget requests \$10 million in ongoing funding for State University undergraduate and graduate agriculture, computer science, engineering, nursing, biochemistry, and biotechnology programs. This funding comes in addition to \$10 million in one-time monies provided in for the current year. Ms. Hill opposes this augmentation for a variety of reasons. First she notes that the "marginal cost" calculated for the State University includes both high- and low-cost programs and that this average of per-student funding should provide sufficient resources to the above programs. The Analyst also takes issue with the State University's claim that it has difficulty attracting and maintaining faculty in these programs and that these programs are "strategic." The Analyst recommends this deletion for these reasons and because she feels that the State University has not provided adequate justification for this augmentation.

#### *University of California*

- ♦ *Increase in student tuition charges for both nonresident and professional-school students.*

The Analyst recommends that nonresident tuition at the University of California be increased to at least the average charged nonresidents at comparable public universities, used for comparison purposes in determining faculty salary levels. Currently, nonresident undergraduates pay



an average of \$14,578 annually, while nonresident graduate students pay an average of \$15,181 each year in total tuition and fees at the University of California. Of these fees, \$10,244 is non-resident tuition and the remainder represents mandatory systemwide student fees and averages of mandatory campus-based fees. This non-resident tuition portion of the above tuition and fees charged to nonresidents is proposed to increase in the upcoming 2001-02 fiscal year.

The Analyst states that for the four public institutions used for salary comparisons with the University of California, the 2001-02 estimated average fee for nonresident students is \$15,625 for undergraduates and \$15,884 for graduates. She calculates the difference between proposed University of California nonresident charges and those for the comparison public institutions for 2001-02 as \$587 (4 percent) for nonresident undergraduates and \$243 (2 percent) for nonresident graduate students. The Analyst recommends the Legislature request that the University of California raise nonresident fees to match those at comparable universities and reduce its General Fund budget for 2001-02 by the \$6 million this increase in charges would generate.

On fees for professional school students, the Analyst recommends the University of California increase these fees by 10 percent for 2001-02, stating that its fees are well below those at comparable universities. The Analyst calculates that this fee increase would generate \$3.5 million in additional funds for 2001-02 and recommends deletion of \$1.5 million in General Funds from the University of California. The \$1.5 million is the amount included in the proposed budget to “buy out” the anticipated increase in professional-school student fees.

- ♦ *Delete \$8 million in State General Funds for the University’s proposal to improve undergraduate education.*

The budget includes \$8 million for a proposal to “strengthen the quality” undergraduate education at the University as the second part of an eight-year plan. In the current year \$6 million was allocated for this purpose; at full phase-in this plan will cost \$50 million annually. The Analyst notes that most of these funds will be used to reduce the current student-to-faculty ratio (SFR) of 18.7:1 to 18.4:1 in the budget year and eventually to 18.7:1 to 17.6:1. However, the Analyst states that the University of California has not provided sufficient information on the budget proposal. Ms. Hill states that the University of California could lower its student faculty ratio without extra funds by requiring a small portion of its faculty to teach one additional course each year. Secondly, she notes that the University of California’s 18.7:1 is towards the middle range SFRs (16.6:1 to 19.8:1) at the four comparable public institutions used for salary comparisons with the University of California. The Analyst concludes that this \$8 million proposal should be rejected by the Legislature.

## *The California Student Aid Commission*

- ♦ *Present a detailed, written update of Cal Grant projections by the time of the Governor's May Revision of the budget.*

The Analyst notes that the major change in the Cal Grant financial aid program from competitive grants to mostly entitlement increases the difficulty of estimating how many grants will be allocated in the coming. While noting that the Student Aid Commission is usually quite accurate with these projections, the Analyst recommends that the Student Aid Commission update its projections in time for the Legislature to act upon this item as it deals with the Governor's annual May Revision of the proposed budget.

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### **Analyst recommendations for the K-12 budget**

The Legislative Analyst recommends a variety of redirections in funding for K-12 education. The main theme that runs through the Analyst's recommendations is to provide local elementary and secondary school districts with greater flexibility in the allocation of its resources in order to meet local needs and to achieve State policy objectives. In keeping with this theme, the Analyst recommends moving funds from most of the Governor's targeted major program changes to K-12 into either block grants or into some more discretionary pots of funds to accomplish program goals.

As noted earlier, the Analyst recommends the deletion of almost \$800 million in Proposition 98 funds for 2001-02, nearly \$700 million of it for K-12. These recommendations are highlighted below

She recommends adding a new K-12 budget item in which to redirect funds for this purpose. The Analyst titles this the "Disadvantaged Schools Block Grant" item and it would be for very low performing middle schools and high schools and those that have high concentrations of students in poverty. The Analyst proposes that \$500 million her in suggested deletions of funds from the K-12 budget be redirected to this item.

The Legislative Analyst's major recommendations concerning the 2001-02 budget for K-12 education are summarized below:

**Middle School Longer Year Incentive** – Redirect \$100 Million to New Block Grant Item. The Analyst recommends that the Legislature redirect this \$100 million (Proposition 98) to a block grant targeted at middle schools and high schools with concentrations of students in need.

**Algebra Incentive Program** – Redirect \$17 million from this item to the Teaching as a Priority Program. The Legislature should redirect \$17 million of the proposed \$30 million for the Algebra Incentive Program to increase the funding base of the Teaching as a Priority (TAP) block grant. The Analyst states that this item provides local districts greater flexibility to address teacher shortages in other critical subject areas. The Analyst

also recommends adoption of legislation to clarify that TAP funds can be used for salary differentials for subject areas of critical teacher shortages.

**Standards-Bases Teacher Development** – Initially fund professional development only for teachers in year-round schools, which reduces this item by \$235 million. The Analyst recommends that Legislature provide \$100 million for standards-based professional development for the approximately 50,000 teachers currently teaching in year-round schools, then grow the program more quickly over the remaining two years to serve the same total number of teachers.

**University of California Professional Development Institutes** – Reduce University of California and the State Department of Education budgets by a total of \$20 Million. The Analyst recommends that the Legislature not approve these funds as budgeted in order to bring the funding for the California Professional Development Institutes in line with the funding the State currently provides the Department of Education for teacher stipends. Also on teacher training, the Analyst recommends shifting \$18.5 million from the State University ETPDP program to the State Department of Education (see page 5, above).

**API Performance Awards** – Reduce funding by \$219 million. The Analyst recommends that the Legislature reduce the funding used to provide the Governor's Performance Awards by \$219 million until the Academic Performance Index (API) is based upon a broader set of performance indicators than the Stanford-9 test, which she notes is not aligned to California's academic content standards.

**K-12 Discretionary Funding** – Allocate, through redirections and augmentations, \$175 million in Proposition 98 monies to local school districts and county offices of education. Ms. Hill recommends that the Legislature set a specific target to equalize funding for low-revenue-limit districts and appropriate \$75 million for this equalization. In addition, she recommends the Legislature appropriate \$100 million to begin phasing out the annual reduction in school district apportionments that is tied to theoretical savings in contributions to the Public Employees Retirement System.

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**Summary** The Legislative Analyst recommends many redirections and changes in the manner in which funds for education items are proposed in the Governor's 2001-02 State budget. Unlike prior years, however, the Analyst does not focus so much on spending *reductions* as on spending *realignments*, which she recommends in order to better accomplish State policy goals. Further, the Analyst recommends several changes in budgeted proposals in order to provide more discretionary funds to local K-12 and community college districts. The Analyst recommends that this flexibility will better assist local educators meet their diverse local needs and better hold them accountable for achieving State policy goals.

The Analyst notes that all of her recommendations are predicated on assumptions about the health of the State and national economy. If those assumptions are invalidated by the current volatility of the energy situation and consumers' anxiety over their own wealth, the Analyst warns that State tax revenues will not be sufficient to support the budgets planned expenditures

The Analyst is presenting these recommendations at State Senate and Assembly budget subcommittee hearings and the Legislature will act upon them as it develops a final version of the budget bill during the upcoming months.

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